ORIGINAL

Attorney or Party Name, Address, Telephone and Fax Number, and CA State Bar No.

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FOR COURT USE ONLY

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA

In re:

MICROSEPTEC, INC., a Nevada corporation

Debtor(s).

CASE NO.: **SA 01-15380 JR**
Chapter 11

NOTICE OF SALE OF ESTATE PROPERTY

Sale Date: **Hearing Date: April 1, 2002**	Time: **2:00 P.M.**
Location: **U.S. Bankruptcy Court, Ronald Reagan Federal Building and United States Courthouse, 411 West Fourth Street, Santa Ana, California 92701**	

Type of Sale: ■ Public ❑ Private Last date to file objections: **March 18, 2002**

Description of Property to be Sold: Substantially all assets of the estate - see the attached Notice of Hearing on Debtor's Motion for Order (1) Authorizing Sale and Assignment of Substantially All of the Assets of the Estate Free and Clear of Liens; (2) Assumption and Assignment of Leases and Executory Contracts; and (3) Rejection of Leases and Executory Contracts; Combined With Notice of Overbid Procedures (the "Hearing Notice")

Terms and Conditions of Sale: See the attached Hearing Notice

Proposed Sale Price: See the attached Hearing Notice

Overbid Procedure (If Any): See the attached Hearing Notice

If property is to be sold free and clear of liens or other interests, list date, time and location of hearing:

April 1, 2002 at 2:00 P.M.

Contact Person for Potential Bidders (include name, address, telephone, fax and/or e:mail address):

James C. Bastian, Jr., Esq.
Marshack Shulman Hodges & Bastian LLP
26632 Towne Centre, Suite 300, Foothill Ranch, CA 92610
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Date: March 14, 2002

James C. Bastian, Jr. - Bar No. 175415
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Attorneys for Debtor and Debtor in Possession
MicroSepTec, Inc., a Nevada corporation

FILE

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA, SANTA ANA DIVISION

In re **MICROSEPTEC, INC., a Nevada corporation,** Debtor's Address: 23112 Alcalde Drive Suite C Laguna Hills, CA 92653 Tax I.D. No. 88-0327765 Debtor.	Case No. SA 01-15380 JR Chapter 11 **NOTICE OF HEARING ON DEBTOR'S MOTION FOR ORDER AUTHORIZING (1) SALE AND ASSIGNMENT OF SUBSTANTIALLY ALL OF THE ASSETS OF THE ESTATE FREE AND CLEAR OF LIENS; (2) ASSUMPTION AND ASSIGNMENT OF LEASES AND EXECUTORY CONTRACTS; AND (3) REJECTION OF LEASES AND EXECUTORY CONTRACTS; COMBINED WITH NOTICE OF OVERBID PROCEDURES** Date: April 1, 2002 Time: 2:00 P.M. Place: Courtroom 5A Ronald Reagan Federal Building and United States Courthouse, 411 West Fourth Street Santa Ana, California 92701

PLEASE TAKE NOTICE that on April 1, 2002 at 2:00 P.M., in Courtroom 5A of the above-entitled Court located at Ronald Reagan Federal Building and United States Courthouse, 411 West Fourth Street, Santa Ana, California 92701, MicroSepTec Inc., a Nevada corporation, f/k/a MicroSepTic, Inc., the Debtor and Debtor in Possession herein ("Debtor"), will bring a Motion for Order Authorizing (1) Sale and Assignment of Substantially All of the Assets of the Estate Free and Clear of Liens; (2) Assumption and Assignment of Leases and Executory Contracts; and (3) Rejection of Leases and Executory Contracts (the "Sale Motion").

INTRODUCTION

The Debtor previously reached an agreement in principal with certain principals of the Buyer to sell the Debtor as a going concern through a plan of reorganization. This plan provided for recovery to unsecured creditors. After the Debtor had noticed its Disclosure Statement and filed its Plan encompassing this transaction, these principals advised the Debtor they longer wished to proceed with the Plan. Thereafter, on or about February 14, 2002, the Debtor received a letter of intent from MST Holdings LLC, a Maryland Limited Liability Company (the "Buyer") to purchase from the Debtor substantially all of its assets as more particularly described in the draft of the Asset Purchase Agreement (the "Agreement"). The Debtor and the Buyer are still negotiating the final terms of the sale transaction and therefore the Agreement is subject to changes. **Any**

party interested in submitting an overbid should review the overbid procedures set forth below (beginning at page 5 of this Notice).

All creditors and parties in interest should be aware that the proposed Buyer herein is controlled by two principals, Ric Green and Wayne Newsome, who are also principals in the Debtor's loan facility through TAG, the Debtor's secured lender which provided both pre and post-petition financing. Further, Mr. Green is a former director of the Debtor and Mr. Newsome is principal of an entity holding a license to distribute the Debtor's Enviroserver product throughout the eastern United States. As a result, the sale proposed herein is essentially a transaction between the Debtor and its primary secured lender. Rather than allow its assets to be foreclosed upon by TAG, or allow the case to be converted to Chapter 7, the Debtor has elected to proceed with this sale which will create funds to pay administrative and priority claims and create the opportunity for overbid that would put cash in the hands of unsecured creditors.

THE PROPOSED SALE

The principal terms of the Agreement are as follows (to the extent there is any discrepancy between the terms set forth herein below and the terms of the Agreement, the terms of the Agreement shall control):

1. Transfer of Assets.[1] Subject to the terms and conditions of the Agreement, and except for the Excluded Assets (defined below), on the Closing Date, the Debtor shall sell, assign, transfer, convey and deliver to Buyer, and Buyer shall purchase, acquire and accept from the Debtor, all of Debtor's right, title and interest in and to all of the properties, rights, contracts, interests, claims and other assets of any nature whatsoever of Debtor, wherever located, whether tangible or intangible, real, personal or mixed, as of the Closing Date, excluding certain specific assets that will be set forth in the Agreement (collectively, "Assets"), free and clear of all liens, charges, claims, security interests or other encumbrances of any nature whatsoever ("Encumbrances"). The Assets include, without limitation, the properties, rights, contracts, interests, claims and other assets of the Debtor described as follows:

a. All of Debtor's interests in furnishings, furniture, office supplies, spare parts, tools, machinery and equipment (collectively, "Equipment"), used in the operation of the Business.

b. All of the Debtor's interests in fixed assets, other than the Equipment.

c. All quantities of the Debtor's inventory, including, without limitation, raw materials, work-in-process, finished goods, and supplies.

d. All of the Debtor's accounts receivable and all notes receivable (whether short-term or long-term), together with any unpaid interest accrued thereon and any security or collateral therefor, including recoverable deposits (collectively, "Accounts Receivable").

e. All of the Debtor's cash, depository accounts, bank balances, marketable securities and other liquid assets.

f. All rights of the Debtor pursuant to warranties, representations and guarantees made by suppliers, manufacturers and contractors in connection with products or services of the Business, or affecting the Assets.

g. All rights and interests of the Debtor in and to patents and patent applications owned by the Debtor or licensed to the Debtor by third parties and used in connection with the Business, and all rights and interests of the Debtor in and to designs, manuals, schematics, blueprints, drawings, trade secrets, proprietary information, research, know-how, inventions, and manufacturing, engineering and other technical information whether owned by the Debtor or licensed from third parties by the Debtor which are used in connection with the Business and all trademarks, trade names and service trade names and service marks, used in connection

[1] Capitalized terms are defined below.

with the Business, and all rights and interests of the Debtor in and to copyrights, and registrations and applications for such copyrights, used in connection with the Business (collectively, "Intellectual Property Rights") including, without limitation, those Intellectual Property Rights described as follows:

i. Trademarks/ wordmarks/servicemarks: MicroSepTec; Envirotrans 2000; EnviroServer; and Puratrans.

ii. Worldwide exclusive license for U.S. Patent No. 4,631,133. However, in the event a satisfactory settlement is not reached with the licensors, Mr. Axelrod and/or Waukomis, this license will be rejected and the sale of the Assets will proceed free and clear of the claims of Mr. Axelrod and/or Waukomis, with such claims, if any, to attach to the proceeds of the sale in the same validity and priority as prior to the Petition Date.

iii. U.S. Patents 6,139,744; 5,958,252; 6,048,452.

iv. Patent pending under Application No. 60/164691.

h. All rights and interests of the Debtor in and to the names "MicroSepTec"; "Envirotrans 2000"; "EnviroServer"; and "Puratrans" and logos and all other names and logos used by the Debtor now or in the past;

i. All of the Debtor's rights under sale orders, purchase orders, contracts, agreements, leases, licenses, arrangements and commitments of any kind which relate to the Business or the Assets including, without limitation, all maintenance and monitoring contracts between the Debtor and its customers and Seller's rights under executory contracts and unexpired leases pursuant to Section 365 of the Bankruptcy Code (collectively, "Commitments").

j. All customer and vendor lists relating to the Business, and all files and documents (including credit information) relating to such customers and vendors, whether maintained electronically or in hard copy.

k. All prepaid charges, deposits, sums and fees and all rights to refunds pertaining to the Business, including, without limitation, any prepaid insurance premiums and any tax refunds.

l. All known and unknown, liquidated or unliquidated, contingent or fixed, claims, rights or causes of action which the Debtor or its Estate may have against any third party, including, without limitation, any insurance claims and the proceeds thereof.

m. All federal, state or local governmental or regulatory permits, licenses, consents, authorizations, grants, approvals and franchises held by the Debtor in connection with the operation of the Business or the ownership of the Assets (collectively, "Permits").

n. All telephone numbers of Debtor.

o. All of the Debtor's inventory of advertising, sales and customer materials, forms, labels, promotional materials, manuals and supplies used in the operation of the Business.

p. All of the Debtor's books, records, files, documents, computer programs and records and data and proprietary information relating to the Business or to the Assets including, without limitation, Seller's accounting and financial books and records.

q. All capital stock, partnership interests or other interests which the Debtor may hold in any corporation, partnership or other entity.

r. To the extent not included in the foregoing, all rights and properties, tangible and intangible, set forth in the Schedule of Assets and Liabilities filed by Debtor in its Bankruptcy Case.

2. Excluded Assets. The Parties expressly understand and agree that Debtor is not hereunder selling, assigning, transferring or conveying to Buyer the following properties, rights, contracts, interests, claims and other assets of the Debtor (collectively, "Excluded Assets"):

a. Minute books, stock record books and corporate certificates of authority of the Debtor.

b. Bankruptcy claims of Debtor arising under any of Sections 362, 510 and 542 through 550 of the Bankruptcy Code ("Bankruptcy Actions");

c. Any properties, rights, contracts, interests, claims or other assets of the Debtor specifically listed on a schedule to be provided to the Debtor by the Buyer on or before the Closing Date.

d. The Debtor's rights under the Agreement.

3. Assignment of Commitments. The Debtor shall use reasonable efforts to obtain prior to the Closing Date all non-governmental approvals, consents or waivers necessary to assign to Buyer on the Closing Date, without any expense to Buyer, the Commitments or any claim, right or benefit arising thereunder or resulting therefrom.

4. Assignment of Permits. The Debtor shall use reasonable efforts to assign, transfer and convey to Buyer on the Closing Date without any expense to Buyer, the Permits which are held or used by Seller in connection with the Business.

5. Buyer's Nonassumption of Liabilities. Except as specifically provided to the contrary in the Agreement, the Buyer shall not assume or in any way be liable or responsible for any liabilities or obligations of the Debtor of any nature whatsoever, including, without limitation, any obligations of Debtor resulting from events which have occurred, or will occur, prior to the Closing Date. Except for as provided otherwise in the Agreement, the Debtor shall be liable and responsible for all its liabilities and obligations resulting from events which occur prior to the Closing Date. Without limiting the generality of the foregoing, except for as provided to the contrary in the Agreement, the Buyer shall not assume any of the following liabilities, obligations or commitments of the Debtor: (i) any tax liabilities or similar assessments arising from the conduct of the Business or from occurrences prior to the Closing Date; (ii) any liabilities for breach or default by the Debtor under any Commitment assigned to Buyer hereunder, the factual or causative basis of which occurred prior to the Closing Date; (iii) any liability with respect to any claim, suit, action or judicial or arbitration proceeding made or commenced against the Debtor at or prior to the Closing Date or made or commenced after the Closing Date, to the extent that such claim, suit, action or proceeding arises out of or relates to any action, omission or condition occurring or existing prior to the Closing Date; (iv) any payroll liability, severance liability, worker's compensation, insurance or other liability to any employee or former employee of Seller, or any other liability in respect of any employee attributable to or in respect of any period prior to the Closing Date; (v) any claim based upon product liability arising out of a product manufactured (in whole or in part) or service performed (in whole or in part) by Seller prior to the Closing Date; or (vi) any oil or petroleum or chemical liquids or solids or gases or hazardous or toxic waste, materials or by-product which has been used in, spilled, discharged or stored, processed, or treated at any facility used by Seller at any time prior to the Closing Date.

6. As Is/Where Is. The Debtor shall sell, transfer, convey and deliver to Buyer the Assets on an "As Is" and "Where Is" basis, free and clear of all liens and encumbrances.

7. Purchase Price. The purchase price to be paid by Buyer for the Assets shall be Nine Hundred Thousand Dollars ($900,000.00) cash (the "Purchase Price"). The Purchase Price shall be payable on Closing Date.

8. Satisfaction of the TAG Claim. From the Purchase Price, the Debtor shall satisfy TAG Claim.

9. Specific Liabilities Assumed by Buyer. The Buyer shall assume and pay, perform and discharge as and when due only the liabilities and obligations of Debtor becoming due after the Closing Date as follows (collectively the "Assumed Obligations"):

a. The liabilities and obligations of Debtor becoming due after the Closing Date under the Commitments to the extent any such Commitment is assigned to the Buyer by the Debtor.

b. The accrued vacation obligations of the Debtor with respect to those employees that are terminated by the Debtor on Closing (defined below) and hired by the Buyer.

c. The Debtor's obligations with respect to any licensing or distribution agreements as restructured or otherwise.

d. Any obligation of the Debtor arising prior to Closing that could have been satisfied with the $100,000 in additional financing to be provided by TAG, but only if the $100,000 is not provided by TAG

10. The Closing. The closing of the transactions contemplated by the Agreement (the "Closing") shall take place at the premises of Debtor located at 23112 Alcalde Drive, Suite C, Laguna Hills, CA 926537 commencing at 9:00 a.m., local time, on April 2, 2002 (the "Closing Date"). Buyer shall take physical possession of the Assets at the Debtor's Premises.

11. Sales Tax Obligations. All federal, state, local or foreign sales, use, transfer or similar taxes payable in connection with the sale of the Assets to the Buyer, if any, shall be paid by the Debtor. The Debtor asserts that this sale is exempt from sales tax obligations and will seek a provision to such effect in the Court order approving the sale.

NOTICE OF OVERBID PROCEDURES

Pursuant to Court order, the sale contemplated by the Agreement is subject to the following overbid procedures (the "Overbid Procedures"):

1. Due Diligence. Prior to the hearing on the Sale Motion, each entity interested in submitting an overbid ("Overbidder") for the purchase of the Debtor's Assets will have complete access to the Debtor's books and records and will be allowed to conduct a due diligence investigation with respect to the acquisition of the Assets at the Debtor's Premises during the Debtor's normal business hours and after providing reasonable written request to the Debtor and after executing a confidentiality agreement satisfactory to the Debtor.

2. Bidding Increments. Potential Overbidders must bid an initial amount of at least Twenty Thousand Dollars ($20,000.00) over the Purchase Price offered by the Buyer. Minimum bid increments thereafter shall be Twenty Thousand Dollars ($20,000.00).

3. Deadline for Submitting Overbids. Overbids must be in writing and be received by the Debtor's counsel, Marshack Shulman Hodges & Bastian LLP to the attention of James C. Bastian, Jr. by no later than 5:00 p.m. (PST) on March 27, 2002.

4. Overbidder Deposit. Overbids must be accompanied by certified funds in an amount equal to Ten Percent (10%) of the overbid purchase price (the "Overbidder's Deposit"). In the event the successful Overbidder fails to close the sale for ANY reason other than the failure of a condition existing in such overbidder's favor, the Overbidder's Deposit shall be non-refundable and retained by Debtor as liquidated damages, and Debtor shall be released from its obligation to sell the Assets to the successful overbidder.

5. Terms of Overbid. Any Overbidder should offer to acquire the Assets on terms which are substantially similar to those set forth in the Agreement and should offer to acquire the Assets without any condition on the outcome of unperformed due diligence beyond the deadline for conducting due diligence set forth hereinabove. Any Overbidder must offer to acquire the Assets on an "as is" and "where is" basis, and subject only to the accuracy of reasonable representations and warranties or the satisfaction of reasonable conditions.

6. Dissemination of Overbid. The Buyer, the Committee and any Overbidder whose offer complies with the overbid procedure requirements may obtain, at their own expense, copies of all overbids received by the Debtor.

7. Financial Qualifications of Overbidder. All Overbidders shall prequalify, in the discretion of the Debtor and the Committee, no later than March 27, 2002, by providing to the Debtor and the Committee and their counsel evidence, satisfactory to the Debtor and the Committee, of such Overbidder's ability to qualify as a purchaser of the Assets, proof of an Overbidder's ability to close the sale immediately and unconditionally, and such other documentation relevant to an Overbidder's ability to qualify as the purchaser of the Assets.

8. Final Bidding Round. If overbids are received, the final bidding round shall be held concurrent with the Bankruptcy Court hearing on the Debtor motion for a Bankruptcy Court approving this Agreement in order to allow all potential bidders the opportunity to overbid and purchase the Assets.

9. Refund of Overbidder's Deposit. The Overbidder's Deposit shall be refunded within five (5) days of the final bidding round in the event that the Overbidder is outbid.

10. Determination of Most Favorable Bid for Assets. At or before the time of the hearing on the Sale Motion, the Debtor and the Committee will determine which offers received for the purchase of the Assets are the most favorable offers for the purchase of the Assets.

11. Further Bidding; Increments of Bidding; Cash Component of Overbids; Evaluation of Non-Cash Consideration. At the hearing on the Sale Motion, the Debtor will announce in open Court the offers which the Debtor and the Committee have accepted as being the offers which are the most favorable offers for the creditors of the estate. At the hearing on the Sale Motion, the Buyer and any Overbidder which has duly paid the Overbidder Deposit and whose overbid otherwise complies with the overbid procedure requirements, will have the right to bid in excess of any overbids. Bidding will be in increments of not less than Twenty Thousand Dollars ($20,000). Non-cash consideration in the form of a promissory note will be evaluated by the Debtor relative to cash consideration taking into account, among others, the following factors: (i) the value of any collateral for the promissory note; (ii) the terms of the promissory note, including the interest rate, payment terms and maturity date provided for therein, (iii) the financial condition of the bidder; and (iv) any restrictions which the bidder may propose with respect to the conduct of its business until the obligations evidenced by the promissory note are satisfied. Any discount of non-cash consideration relative to cash consideration will be on terms determined by the Debtor and the Committee, subject to the approval of the Court.

12. Auction Proceeding. Any auction proceedings with respect to the sale and assignment of the Assets will be conducted in a manner to be determined by the Debtor and the Committee, subject to the approval of the Court. Any such auction shall be conducted at a location at the courthouse designated by the Court.

13. Court's Determination of Successful Bid; Sale Order. After the conclusion of any auction proceedings, the Court will determine the offer for the purchase of the Assets which is the most favorable offer for the Debtor's creditors. The Debtor will submit to the Court, at the hearing on the Sale Motion or as soon thereafter as practicable, an order approving the Sale Motion ("Sale Motion Order") pursuant to which the Court will authorize the Debtor to sell and to assign to the successful bidder ("Successful Bidder") the Assets in accordance with the terms of the Successful Bidder's purchase and sale agreement with the Debtor, as such agreement may be improved by the terms of any overbid made by the Successful Bidder at the hearing on the Sale Motion.

14. Non-Refundable Deposit. At the conclusion of the hearing on the Sale Motion, the formerly refundable Deposit of the Successful Bidder will become non-refundable. In the event that the Successful Bidder fails to timely close the purchase of the Assets, through no fault of the Debtor, the Successful Bidder will irrevocably forfeit its Overbidder Deposit.

15. Back-up Bids. The Court will determine the priority, with reference to favorableness to the estate, of any offer for the purchase of the Assets made by a bidder other than the Successful Bidder

(hereinafter, "Back-Up Bidder"), and establish the dates within which the Back-Up Bidder must close on the purchase of the Assets in accordance with the terms of its purchase and sale agreement (as such agreement may be improved by the terms of any overbid made by such Back-Up Bidder at the hearing on the Sale Motion) in the event that the Successful Bidder or the higher Overbidder fails to close on the purchase of the Assets within the dates established by the Court therefore. At the conclusion of the hearing on the Sale Motion, the Debtor will retain the Overbidder Deposits of any Back-up Bidder.

16. Disposition of Deposits of Back-Up Bidders. Each Back-Up Bidder who, pursuant to the Sale Motion Order, is afforded the opportunity to purchase the Assets and, through no fault of the Debtor, fails to close the purchase of the Assets on or before the date established by the Court therefor, will irrevocably forfeit its Overbidder Deposit. Each Back-Up Bidder which is not afforded the opportunity to purchase the Assets will recover its Overbidder Deposit promptly after the closing of the purchase of the Assets.

17. Stay Pending Appeal. If any party obtains a stay pending appeal of the Sale Motion Order, the Successful Bidder and Back-Up Bidder will remain obligated to close the purchase of the Assets as provided by the Sale Motion Order; provided, however, that, if the stay pending appeal should remain in effect for in excess of thirty (30) days after the entry of the Sale Motion Order, the Successful Bidder and any Back-Up Bidder may elect to terminate their purchase and sale agreements and promptly receive back their Deposits.

18. Committee Participation to Encourage Overbidding. In addition to the involvement prescribed above, the Committee shall participate in all aspects of the sale in order to encourage overbidding, including participating in the review of overbids and the evaluation of any overbidder's qualifications, being provided access to information needed by potential overbidders, being provided notice of any interest expressed by a potential overbidder and being consulted regarding strategies for procuring overbids

CASE BACKGROUND INFORMATION

The Debtor filed a voluntary petition for relief under Chapter 11 of Title 11 of the United States Bankruptcy Code on June 18, 2001 (the "Petition Date").

The Debtor is continuing in the operation and management of its business pursuant to Bankruptcy Code Sections 1107 and 1108.

The Debtor's primary business consists of inventing, improving, selling, producing and distribution of the EnviroServer, an alternative septic and sewer system which provides a safe and efficient method of organic wastewater disposal (the "Business"). In connection with the operation of the Business, the Debtor holds its own patents related to the EnviroServer.

A. Events Leading To The Bankruptcy Filing

Since Debtor was founded in 1994, it has relied on investors to support its ongoing operations and has not yet reached the point where income has been equal to or greater than its expenses, which is not uncommon for start-up companies. Due to decisions by prior management, the Debtor was spending more on research and development and not enough time in market research, marketing and sales. In its expansion efforts Debtor ran into the following problems:

Regulation. Originally, the Debtor believed that certification by NSF International ("NSF")[2] was the "hurdle" to overcome for the product to be accepted universally in the market for on-site treatment of wastewater, which is heavily regulated. This market is broadly divided between conventional septic tanks and

[2] NSF is an independent not for profit organization committed to the public health, safety, and protection of the environment. Since 1944, NSF has developed standards and provided third-party conformity assessment services to the government, consumers, and manufacturers of products and systems related to environmental and public health safety.

Advance Treatment Units ("ATU's"). The EnviroServer falls into the ATU category. All states, except California and Michigan, have a state standard governing installation and use of conventional septic tanks. Some states have regulations regarding ATU's but many do not. The state of California is proposing to introduce legislation in early 2004, following the approval of assembly Bill 885, which will provide a state standard governing all products that treat waste on-site. In the meantime, particularly in California, approval to install the EnviroServer is sought at the county and/or the city level, which has proven to be time consuming. Each installation requires a site-specific permit. Even though the EnviroServer is a superior product to its competitors, no credit is currently given by the regulators for the quality of the effluent it produces or other benefits that are derived like the reduced size of dispersal field or distance to groundwater. Many regulators treat the EnviroServer like a conventional septic system.

Pricing. In most markets where a conventional septic system will work, the EnviroServer has historically been priced too high. In markets where the existing septic tank can be used in conjunction with aerobic components and a typical leach field, the EnviroServer has been more competitive. However, when the purchase decision is just based on price, the Enviroserver lost its edge. In certain areas where a complete replacement is needed or where there are percolation problems, high ground water or nitrate problems, the Enviroserver excels. However, given current regulations, this is not yet a mass market.

Competition. Any new product, be it the best product in its category, takes time to achieve acceptance by consumers, regulators and professionals involved with their implementation. Debtor's prior management failed to allow for this to nurture believing that because Enviroserver was the best product, it would therefore almost instantaneously be in high demand. Thus, prior management gave little concern to competitive products and their pricing and the effect it would have on the marketing and sales of EnviroServer. The EnviroServer was not marketed in areas where advanced treatment units are required and where the product would have a competitive advantage (e.g., Massachusetts, Florida, and Washington).

Overhead Costs. The monthly overhead of Debtor was high when compared to revenue. Prior to the Petition Date, the Debtor operated out of approximately 13,000 square foot leased facility that was not being fully utilized and the company was overstaffed. Under prior management, both of these factors arose from the belief that the Debtor's growth was about to explode. Since the Petition Date, the Debtor has moved to a smaller facility and reduced its workforce.

In summary, with costs exceeding revenue, the Debtor looked for conventional financing sources and attempted to raise additional capital. Unfortunately, the Debtor was unable to raise all of the cash to meet its current needs. As a result of pressures placed by certain creditors, general collection actions, an unlawful detainer action and two lawsuits seeking damages for worked performed, one of which resulted in a judgment lien, the Debtor was forced to seek bankruptcy protection.

In April 2001, shortly before the Petition Date, the Debtor's management presented a business plan to the Board of Directors which plan was based on market research and on identification of key markets to target. This plan was rejected by the Board of Directors at that time. In May 2001, R.C. Shades resigned from the Board of Directors and as the Chief Executive Officer of the Debtor. Shortly thereafter, Russ Grisanti, Ric Green, Peter Kim, Rob Tessari and Kevin Olson resigned as directors, leaving Mr. Axelrod and Dale Norquist as the two remaining directors.

B. Dispute Regarding Patent Ownership

Burton Axelrod resides in Florida, and is currently a shareholder and a member of the Board of Directors of the Debtor. Mr. Axelrod asserts that in or about August 1994, he entered into a contract with Waukomis, Inc., a Nevada corporation ("Waukomis") whereby he granted Waukomis an exclusive license in his patented technology. R.C. Shades, a former board member of the Debtor, is the president of Waukomis.

It is Mr. Axelrod's position that he is the owner and inventor of United States Patent Number 4,631,133 (the "Axelrod Patent") involving a waste treatment device utilizing microwaves. Mr. Axelrod asserts that the Debtor is and has been using the technology described in the Axelrod Patent without having paid adequate consideration to Mr. Axelrod for such use.

Specifically, Mr. Axelrod's position is roughly as follows: The company that is now Microseptic was started from scratch by people that had absolutely no prior experience in the business of wastewater treatment. It was formed only to use the process and device that was licensed to them. Then in order to obtain funding, the company represented that it had ownership of this process and device, which it did not. A short time later, the company hired people with some background in this area to write around his process and device in order to acquire subsequent patents, which they allegedly did surreptitiously and without his knowledge. Although Mr. Axelrod was a Board Member, he was allegedly not informed of these proceedings. Mr. Axelrod believes that upon examination and comparison claim by claim all of the subsequent patents are subordinate to the claims of the original process and device and are actually based upon them and are still used by them.

The Debtor asserts that it is the owner of the following United States Patent Numbers: 5,958,252; 6,048,452; and 6,139,744 (the "MicroSepTec Patents"). The Debtor asserts that the MicroSepTec Patents are stand-alone patents, that they do not constitute improvements on the Axelrod Patent, that they do not utilize the same technology as the Axelrod Patent, and that neither Mr. Axelrod nor Waukomis have any interest in the MircoSepTec Patents.

The Debtor or the Buyer and Mr. Axelrod may reach a settlement which should resolve all disputes between the parties and which may be the subject of a noticed motion to be filed with the Court prior to the hearing on the Sale Motion. If no settlement is reached, the Buyer has advised the Debtor it is prepared to proceed with the sale "as is". In such event, any agreements with Mr. Axelrod will be rejected and the sale shall proceed free and clear of his claims as well as any claims asserted by Waukomis, with such claims, if any, to attach to the proceeds of the sale in the same validity and priority as prior to the Petition Date.

C. The Debtor's Secured Obligations

The following chart summarizes the Debtor's secured obligations as of the Petition Date:

Creditor	Description of Claim	Approximate Amount Owed
County of Orange Tax Collector	County Tax Lien, recorded 11/6/00, Instrument No. 2000602985	$250.00
County of Orange Tax Collector	County Tax Lien, recorded 11/6/00, Instrument No. 2000602984	$1,551.00
TED Investments LLC, et al.	convertible debenture Judgment Lien recorded 5/14/01, Instrument No. 0113760607 See further discussion below.	$1,300,000.00
The Aqua Group LLC	UCC-1 Financing Statement Blanket Lien Incurred 6/7/01 UCC-1 filed on June 12, 2001 See further discussion below.	$100,000.00
	Total	$1,401,801.00

1. Further Discussion of Debtor's Obligations to The Aqua Group LLC

Prior to the Petition Date, The Aqua Group LLC, a Washington Limited Liability Company ("TAG") and the Debtor entered into a secured financing agreement and management agreement to oversee Debtor's restructure of its marketing and sales process. As of the Petition Date, the Debtor was indebted to TAG in the amount of $100,000 plus interest, fees, costs and other obligations of the Debtor to TAG existing as of the Petition Date.

On June 7, 2001, the Debtor and the TAG entered into a security agreement and a separate master promissory note for multiple advances. TAG asserts that all of the Debtor's cash on hand and the proceeds of the Debtor's prepetition collateral are the TAG's "cash collateral" within the meaning of Bankruptcy Code Section 363(a).

The Debtor had an immediate need shortly after the Petition Date for financing in order to minimize the disruption of its business and daily operations, to manage and preserve the assets of its bankruptcy estate (the "Estate"), and to complete work in progress in order to generate accounts receivable. Therefore, immediately after the Petition Date, the Debtor filed its emergency motion for an Order: (1) Approving Post-Petition Financing; (2) Granting Security Interest and Superpriority Administrative Expense Treatment; (3) Modifying Automatic Stay Pursuant to Sections 363 and 364 of the Bankruptcy Code; and (4) Authorizing Use of Cash Collateral (the "Financing Motion"). The Debtor brought the Financing Motion in order to obtain working capital to fund its ongoing business operations, and to meet immediate expenses, including payroll taxes, materials, rent, moving expenses and other vendor charges.

The Bankruptcy Court approved the Financing Motion and the financing facility thereunder (the "Financing Facility") pursuant to final order entered on or about August 28, 2001 (the "Financing Order").

Pursuant to subsequent stipulations and orders thereon entered by the Bankruptcy Court in the Debtor's bankruptcy case, the Financing Facility has been extended and increased and as of February 11, 2002, the Financing Facility totaled approximately $570,000.

Until the sale transaction contemplated by the Agreement with the Buyer has closed, pursuant to a separate stipulation executed by the Debtor and TAG and approved by the Official Committee of Unsecured Creditors for the Debtor's bankruptcy case (the "Committee"), the TAG Financing Facility shall be increased by an additional $100,000.00 to fund the Debtor's Business operations through the Closing Date (defined below) (the "Further Financing Stipulation"). Pursuant to the Further Financing Stipulation, the total secured claim of TAG, including principal, interest, fees and costs as of the Closing Date shall be stipulated at $690,000.00 on the Closing Date (the "TAG Claim"). As set forth herein and in the Sale Motion, certain principals of the Buyer are also principals in the TAG Financing Facility.

2. Further Discussion of Debtor's Obligations to TED Investments LLC

The Debtor disputes the validity of the security interest of the claim asserted Ted Investments LLC. The Judgment Lien recorded by Ted Investments LLC was recorded within 90 days prior to the Petition Date and constitutes a preferential transfer that the Debtor may avoid and recover pursuant to Bankruptcy Code Sections 547 and 550. In the event that Ted Investments LLC does not voluntarily release the Judgment Lien, the Debtor will file a complaint to have the Judgment Lien in favor of Ted Investments LLC set aside.

D. The Debtor's Postpetition Operations

Following the Debtor's relocation to a smaller premises and the reduction of its workforce, the Debtor was operating with substantially less overhead. However, notwithstanding its diligent efforts to reorganize its financial affairs, the Debtor has exhausted all avenues for the reorganization of its business operations and has determined that it is not economically feasible for the Debtor to continue its business operations without additional investor funding. The only reasons the Debtor has been able to continue business operations is because TAG has agreed to effectively fund the Debtor's business operations. Thus, after discussions with TAG and their reluctance to continue to fund the Debtor and proceed with a plan of reorganization, the Debtor had no choice but to attempt to locate a purchaser of the Debtor's Assets.

On or about October 12, 2001, the Debtor filed its Disclosure Statement in Support of and Debtor's Plan of Reorganization and the Debtor's Chapter 11 Plan of Reorganization. On or about January 15, 2002, the Debtor filed its First Amended Disclosure Statement Describing Debtor's First Amended Chapter 11 Plan of Reorganization (the "Disclosure Statement") and First Amended Chapter 11 Plan of Reorganization. The hearing

on the Disclosure Statement is currently scheduled for March 12, 2002 but will either be continued or the Plan and Disclosure Statement will be withdrawn.

E. Marketing Efforts

Since about June, 2001, the Debtor has conducted negotiations with a number of prospective acquirers of the Debtor's business through a plan of reorganization including MST Holdings LLC, various creditors who have previously invested in the Debtor and a number of corporate investors, turnaround specialists, investments advisors, real estate investors, developers, homebuilders, a large manufactured housing company, private investors and "boutique" investment bankers. The potential investors/buyers the Debtor has communicated with has included the following: Floyd Quinnell; Doug Larsen; Jeff Kornet and Ron Clarke of Len Gordon Company; Tim Grant of Scottsdale Property Management; Robert Tessari of Marla Resources; Richard Benson of Specialty Finance Group; Bill Graham of Graham Advisors; Eddie Lynch of Westcor Partners; Jack Wolfe; Derek Rodgers, Luis Villalobos of Tech Coast Angels, Ted J. Bischak of Commonwealth Partners LLC; David Rutledge; David March; Kenneth Aldrich; Tim McFarland and Don Tyson of MCG Financial Service; Terry Winter of Champion Development Corporation; J.C. Sterquell of Mayfair Development Company; Jim Bridgewater; Bob Taylor; Woody Bremm and Tony Regan. The Debtor has pursued negotiations with these parties in order to achieve the most favorable terms for the sale of the Debtor's business as a going concern. These parties were provided financial information on the Debtor, its business plan, marketing materials and a proposed plan term sheet. A copy of this Notice of the hearing on the Sale Motion will be provided to these parties and others to solicit an overbid.

F. Treatment of Executory Contracts and Unexpired Leases Through the Sale

Ultimately, it may be determined that in connection with the operation of its Business, the Debtor entered into certain executory contracts and/or unexpired leases (the sometimes referred to herein as the "Operating Agreements"). Marla Resources, Inc. ("MRI") has taken the position in this case that it is a party to an agreement with the Debtor dated March 19, 1999 (the "MRI Agreement"). MRI has asserted that the MRI Agreement is an executory contract within the meaning of Bankruptcy Code Section 365 and that the Debtor's ability to reject the MRI Agreement does not serve to terminate MRI's rights, if any, as a licensee and that it is accorded certain protections under Section 365(n) of the Bankruptcy Code.

At this time, it is not anticipated that any Operating Agreements will be included in the sale. However, in the event an Operating Agreement is ultimately included in the sale,the Buyer must have legal authority to enforce performance under the Operating Agreements if they are ultimately included in the sale. Likewise, the other parties to the Operating Agreements must have a basis for seeking the Buyer's performance thereunder in the event they are ultimately included in the sale. Each party to such Operating Agreements and other executory contracts to be assumed and assigned, if any, will be approached separately to enter into a stipulation for assumption and assignment. If no such stipulation is entered into, then such Operating Agreement or executory contract shall be rejected. Any and all stipulations for assumption and assignment shall be presented to the court for approval at or prior to the time of hearing on this Motion

As to any and all executory contracts and/or unexpired leases not specifically assumed and assigned to the Buyer at Closing, the Debtor requests that the Court approve the rejection such burdensome Operating Agreements. The interests of creditors would best be served if the Operating Agreements ultimately not included in the sale were rejected. The Debtor will no longer need the Operating Agreements ultimately not included in the sale at Closing. Thus, if the Debtor was to assume the Operating Agreements not ultimately included in the sale, an enormous administrative rent liability would be thrust upon the estate all to the detriment of Debtor's unsecured creditors. Since the Debtor has no use for the Operating Agreements not ultimately included in the sale, rejection of the such burdensome Operating Agreements is in order. Following is the list of Operating Agreements that will not be included in the sale unless satisfactory stipulations for assumption and assignment are entered into with the Buyer, and as such, if not already terminated and rejected pursuant to prior Court order or expired by its own terms, shall be terminated and rejected:

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Name Of Other Parties To *The Operating Agreements*	Description of Operating Agreement
Marla Resources, Inc. 950 717 - 7th Avenue S.W. Calgary, Alberta Canada T2P 0Z3	Distributor Agreement Date of Agreement: March 19, 1999 Term: 5 years
EnviroTec 10305 Guilford Road Annapolis Junction, MD 20701	Distributor Agreement Date of Agreement: August 29, 2000 Term: Continue in perpetuity unless terminated earlier pursuant to the termination clauses of the Manufacturing, Distribution and Service Agreement
Sanitec/Evac GmbH a German corporation Haffenstrasse 32 a D22880 Wedel Germany	Distributor Agreement Date of Agreement: April 4, 2000 Term: 5 years from the "Start Date." Start Date is defined as the date of successful completion of the initial certification testing of a Product in the Field of Use in the first targeted georgraphical area.
G. Noah Newmark 2014 Canal Street Venice, CA 90291 Glenwood L. Garvey dba GLA 1559 N Budy Dr Los Angeles, CA 90049	Distributor Agreement Date of Agreement: July 8, 1999 5 years from the date of first contract for delivery of units for commercial installation.
Advanced Medical Sales James H Roache 26601 Cabot Rd Suite A Laguna Hills, CA 92653	Lease for Debtor's business premises located at 26601 Cabot Road, Laguna Hills, CA 92653. The lease has been terminated and the premises vacated on July 16, 2001.

Name Of Other Parties To The Operating Agreements	Description of Operating Agreement
Imperial Business Credit Inc Attn Cal Betz or President/Manager 16935 W Bernardo Dr #150 San Diego, CA 92127 Additional Notice Imperial Business Credit, Inc. PO Box 0070 Denver, CO 80281-0070	Original lessor was Sexton Companies, Agreement No. INT-2847, dated June 22, 1998. 60 month term with payments of $444 per month. Description of the leased equipment: 1 - Vodavi Triad 2 Promo Package-Incldes:KSU, Power supply Common Control, Equipped 12 lines and 24 stations. 1 - Expansion Cabinet 1 - Digital Statoin Card (24 circuits) 1 - Truck Card (6 circuits) 2 - Single Line Station Cards (6 circuits) 2 - DTRU Receiver Cards 1 - Ring Generator 7 - 24 Button Executive Display Speakerphones 28 - 8 Button Sepakerphones 1 - 48 Button DSS Console 1 - Starplus Dispatch Voice Processing System Equipped with 8 ports and 35 Hrs. Voice Mail Time 1 - Surge protector 1 - KXTX 700 Panasonic Tele Conference System 3 - ITT Cortelco 255400 SLT Wall Phones 2 - 12 Volt Sealed Globe Batteries 1 - Battery Back Up Cable - Supports 2 Batteries (Vendor - Right Choice Telecom)
Dimension Funding assigned to JDR Capital Corp Attn President or Managing Agent 877 898-2600 PO BOX 41647 Philadelphia, PA 19101-1647	Lease No. 10627SR99 dated November 11, 1999 for a term of Monthly payment of $1,402.31. Description of leased equipment: Gateway Companies, Inc. computer equipment and related software 1 - HP Lj4500dn Cir Pntr +Hp 1 - LDC 870 Facsimile 1 - ST 600 Paper Drawer for 800 Series Fax 1 - Shredder, Powershred 200 1 - File, Insul 4drw, 25" D, Ph 1 - Storage Cap, Pallet Jack, Safety Ladder 1 - Amp 24 Port Cat 5 Patch Panel with Punch Down Connectors 1 - 3 com Superstack Li1100 (24) 10/100 24 Port Switching Hub with Fast Uplink for Stacking 24 - Cat-5 Patch Cables 24" 15 - Cat-5 Patch Cables 8" THIS OPERATING AGREEMENT WAS TERMINATED AND REJECTED PURSUANT TO COURT ORDER ENTERED ON JANUARY 4, 2002

Name Of Other Parties To The Operating Agreements	Description of Operating Agreement
Xerox Corporation Attn Bankruptcy Unit P O Box 827598 Philadelphia, PA 19182-7598	Lease No. 070716907 dated October 12, 2000 Lease term of 72 months with monthly payments of $1,603.43 plus print charges on prints over 5,000. Lease for copier - OCOL12FDCOI12 W/OctX12 THIS OPERATING AGREEMENT WAS TERMINATED AND REJECTED PURSUANT TO COURT ORDER ENTERED ON DECEMBER 1, 2001
GCM (Asia), Inc. 19200 Von Karman Suite 525 Irvine, CA 92612	Agreement dated March 16, 2001 for an initial 1 year. Under the Agreement, GCM was to provide assistance to the Debtor for the following (a) identity potential capital contributions (b) identify potential licensees.
Computer Associates Interntl Divisional Sales Manager Attn President or Managing Partner One Computer Associates Plaza Islandia, NY 11788-7002	Software license agreement dated December 31, 1998 Licensed program - MK Manufacturing. License No. 431541. Expiration Date: December 30, 2003 License Fees: Date — Amount December 31, 1998 — $35,000 December 31, 1999 — $35,000 December 31, 2000 — $35,000 December 31, 2001 — $35,000 December 31, 2002 — $35,000 THIS OPERATING AGREEMENT WAS TERMINATED AND REJECTED PURSUANT TO COURT ORDER ENTERED ON SEPTEMBER 7, 2001
Benchmark Business Systems Attn President or Managing Agent 5406 Bolsa Avenue Huntington Beach, CA 92649 Assigned to: Kyocera Mita Direct Sales fka Bench Attn Jenny Jeffords or President/Manager PO Box 10426 Des Moines, IA 50306-0426	Rental agreement dated May 8, 1998 with a 60 month term. Equipment: 1 Mita DC 4090 Copier 1 AS S5/20 20 Bin Sorter/Stapler 1 MD 10 Front Load Paper Deck THIS OPERATING AGREEMENT WAS TERMINATED AND REJECTED PURSUANT TO COURT ORDER ENTERED ON NOVEMBER 1, 2001
Law Offices of Robert H. Kleinschmidt 7373 N. Scottdale Road Suite C-146 Scottsdale, AZ 85253	Sublease agreement for office space in Arizona - 7373 N. Scottsdale Road, Suite C-146, Scottsdale, AZ 85253. Term from November 1,2000 to April 30, 2002. Monthly rent of $1,250 plus $50 for two parking spaces, copy charges of $.10 per page and actual postage. Premises vacated by the Debtor in April, 2001. LEASE TERMINATED PRIOR TO THE PETITION DATE
Robinson & Associates, Inc. 434 West Colorado, Suite #102 Glendale, CA 91204	Distributor Agreement dated January 23, 2001 for an initial term of 2 years.

Name Of Other Parties To The Operating Agreements	Description of Operating Agreement
Aqua Pacific Environmental, Inc. 99-930 Iwena Street Suite B105 Aiea, HI 96071	Distributor Agreement dated January 23, 2001 for an initial term of 2 years.
Burton Axelrod PO Box 628 Shelter Island, NY 11964	License for the manufacture, use and sale of the patented EnviroServer through U.S. Patent No. 4,631,133
Waukomis, Inc. RC Shades, President 32136 Links Pointe Laguna Hills, CA 92677	Debtor has exclusive license for U.S. Patent No. 4,631,133 through the following license agreements: Patent License Agreement dated August 4, 1994 wherein Burton Axlerod granted the exclusive license for U.S. Patent No. 4,631,133 to Waukomis, Inc. Assignment and Assumption of Interests in Patent License Agreement dated December 14, 1994 wherein Waukomis, Inc., assigned its rights for the exclusive license of U.S. Patent No. 4,631,133 to the Debtor.

G. The Proposed Sale Serves the Best Interests of the Estate

The Debtor has made a business decision that it is in the best interest of the creditors of this Estate that this Sale Motion be approved. Due to the amount of liens and encumbrances and operating costs, without additional financing and a plan partner, the Debtor does not believe that its business can be reorganized. Furthermore, if the Sale Motion is not approved, the Debtor may be unable to find another buyer for Assets and will likely lose its Assets through a foreclosure sale by TAG. However, through this Sale Motion, the Debtor will preserve an opportunity for creditors to receive something on account of their claims.

The Debtor acknowledges that, in light of TAG's secured claim in the approximate amount of $690,000.00, the distribution to unsecured creditors pursuant to the Buyer's offer may be nominal, if any. Nevertheless, the Debtor believes that allowing the Debtor to attempt to sell its assets through an auction proceeding is more favorable for unsecured creditors than the only alternative now facing the Debtor – TAG's foreclosing on the Debtor's Assets. An auction proceeding offers unsecured creditors their only hope of receiving any distribution on account of their claims while at the same time ensuring that a substantial portion of, if not all, administrative and priority claims will be paid.

The Buyer's offer is subject to auction proceedings. The Agreement contains no material impediments to competitive bidding for the Debtor's Assets. The Buyer's bid is effectively a "stalking horse" bid which may serve to elicit competitive bids. In the event that overbids for the Debtor's Assets are received, a more meaningful distribution to be made on account of unsecured claims will be possible. On the other hand, if no overbids are received and the sale to the Buyer is authorized, unsecured creditors will be better off than they would have been had TAG foreclosed on the Debtor's Assets. Under such circumstances, it is estimated that there will at least be an opportunity for a nominal fund to be established for a recovery for unsecured creditors.

In addition, the Debtor believes that the proposed sale to Buyer as set forth herein provides the maximum possible value for the Debtor's assets. The Debtor has extensively marketed for sale all of its business through a plan and has been in discussions with several parties. While the Debtor and other parties and interest have previously asserted that the Debtor's assets were worth substantially more than the purchase price set forth herein, the reality of this case is that no buyer has stepped forward offering such believed fair

market value. As a result, the Debtor is forced to sell now because of no additional financing sources and an immediate offer that avoids conversion or foreclosure. Because the Debtor is very much in touch with the potential market for purchasers of the Debtor's Assets and has gone through the process attempting to market and sell the Assets, the Debtor believes that the proposed sale herein to Buyer is in the best interests of the estate and creditors. Moreover, in order to determine whether or not the other potential purchasers are interested in overbidding, notice of sale will be provided to all parties which were in contact with the Debtor regarding a possible purchase of the Business.

The sale of the Assets as a going concern rather than a sale by a Chapter 7 Trustee in the event the case was converted to Chapter 7 is the best means for obtaining the most value for the Assets. Due to the nature of the Debtor's product and the regulatory approvals connected therewith, converting the Debtor's case to a Chapter 7 would likely result in a substantially lower selling price. The Debtor currently derives approximately 100% of its income from sales in the states of California, Arizona, Nevada and New Mexico. The products that the Debtor sells are heavily regulated and the approval process for adding additional jurisdictions is time consuming and costly. Each product installation requires a separate permit that must be processed through local regulators. Within California, a state with no state standard for the treatment of on-site wastewater treatment, the Debtor's product has been approved in San Diego, Los Angeles, Riverside, San Bernardino, Solano and San Jaoquin counties, and the City of Malibu. However, it has taken the Debtor approximately 5 years to obtain these approvals. Approvals are only obtained by developing personal relationships and providing assurances that Debtor's product support will be in place when required. One of the selling features of the Debtor's product, and one required by regulators, is continuous maintenance and monitoring to ensure that the effluent leaving the system is not contaminated.

Prior to receiving approval from regulatory authorities, one question that ultimately arises is: "What happens if the Debtor goes out of business?" This is a natural question to ask as regulators are concerned as to who would perform routine maintenance and monitoring in the event the Debtor was no longer in business. Regulators do not want to assume this responsibility themselves. If the Debtor's case was converted to Chapter 7 any sale of the Debtor's Assets would likely result in a substantially lower purchase price than offered by the Buyer herein based on the risk that future product installations would not be approved. If the case was converted to Chapter 7, the Debtor's reputation with regulators would be gravely harmed and therefore it is unlikely that future systems would be approved for installation unless strong guarantees as to the ability to perform under the maintenance and monitoring obligations were given by the buyer of the Debtor's Assets from a Chapter 7 Trustee. Furthermore, as result of Debtor's business operations being shut down during a Chapter 7 proceeding, the Debtor would likely receive complaints from up to seventy (70) owners of the EnviroServers who were unable to obtain service for their systems. This would have a large negative impact on the Debtor's market, resulting in a substantially lower purchase price for the Assets in a Chapter 7 proceeding.

The combination of regulatory displeasure for having been left "holding the bag" and customer disgust in the event the Debtor closed its business upon conversion to Chapter 7 in all likelihood would prevent further sales in the short term in the states where the Debtor has worked so hard and has already obtained approval for installation of its product. Furthermore, the regulatory arena is fairly "tight knit" and it is very likely that word of the Debtor's demise would spread from one state to another, thus making it very difficult to expand in other western states.

The buyer of the Debtor's Assets from a Chapter 7 Trustee could shift its focus to the east coast, but currently has there are few approvals there and therefore a substantial amount of time and money would need to spent in order to open up new markets there. It would take approximately two years for the buyer of the Debtor's assets from a Chapter 7 Trustee to establish itself in new markets like Massachusetts and Florida.

Another factor impacting the sale of the Assets during the Chapter 11 rather than by a Chapter 7 Trustee is the problems that would arise with Debtor's certification, professional associations and memberships that are crucial for the Debtor to gain and maintain the confidence of regulators and distributors and for marketing. For example, if the Assets are sold under a Chapter 11 without interruption of business operations, NSF certification can be easily transferred to the buyer without payment of any fees. In brief, the Debtor would simply need to write a letter to NSF stating the change of ownership and provide them with the name of the

new entity. NSF would then send a new "Contract for Certification Services by NSF International" to be signed by the buyer. In the event the Assets are sold by a Chapter 7 Trustee, the following would take place with regards to NSF certification: (a) NSF would drop its listing of the Debtor on NSF's webpage; (b) If someone buys the Assets within six months of the drop, the buyer can pick up the NSF certification by writing a letter stating that it is the new owner of the EnviroServer product and by signing a new contract with NSF. However, the new owner would have to pay a fee for the certification of $885; (c) If the sale of the Assets closes more than six months after the Debtor has been dropped from NSF's webpage, the new owner would have to pay a fee of $1,500; (d) The new owner may or may not have to go through retesting with NSF; (e) certification contracts with NSF requires factory support, inspections, maintenance and warranty of all parts for two years. Conversion of the Debtor's case to Chapter 7 would more than likely violate the certification contract with NSF. Conversion of the Debtor's case to Chapter 7 would also negatively impact the Debtor's membership in the National Onsite Wastewater Association.

The Debtor's product is not one that can be delivered to another supplier. The Debtor's product is unique and requires regulatory and professional acceptance. Conversion of the Debtor's case to Chapter 7 would ruin the Debtor's regulatory and professional acceptance and would cause the loss of the Debtor's engineering and architectural referrals, installation referrals, institutional endorsements such as from the University of Wisconsin, UC Davis, University of California at Chico and UC Riverside, approval by the City of Malibu, goodwill and referrals of existing owners, and key employees with product knowledge, design knowledge and industry specific professional relationship. These losses would result in a substantial reduction in the amount that might be recovered from the sale of the Assets by a Chapter 7 Trustee.

In summary, given that the buyer of the Debtor's assets from a Chapter 7 Trustee would have to effectively start over, and recreate the business on the east coast, thus investing time and money to obtain regulatory approvals etc., it is likely that they would pay substantially less for the Debtor's Assets than as proposed by the Debtor as an ongoing business that is forecast to reach break-even within approximately six months.

Accordingly, the Debtor has concluded that the best available option to preserve value for creditors is to consent to sell the Assets on terms at least equal to those set forth herein and create the opportunity for overbids through this procedure. The Debtor has concluded that reorganization of its business affairs is impossible without additional funding which it cannot secure at this time despite conscientious efforts. As a result, the sale of the Debtor's assets through the Chapter 11 process and the protections accorded under Bankruptcy Code Section 363 is the best and only means to maximize recovery for creditors of this estate.

In summary, the Debtor has no reorganization options. The only option is to sell now or sell later. Selling now preserves value in that if the sale is not approved, the Debtor's operating Assets may be lost through a foreclosure sale.

Accordingly, under the facts of this case, the Debtor respectfully submits that this Court should approve the Sale Motion and thereby allow the Debtor to maximize the value of the Debtor's Assets for the benefit of the Debtor's creditors.

For further information please see the Motion for Order Authorizing (1) Sale and Assignment of Substantially All of the Assets of the Estate Free and Clear of Liens; (2) Assumption and Assignment of Leases and Executory Contracts; and (3) Rejection of Leases and Executory Contracts; Memorandum of Points and Authorities and Declaration of Michael Grubb in Support on file with the Clerk of the above-entitled Court which may be reviewed on Monday through Friday from 9:00 A.M. to 4:00 P.M. A copy of the Sale Motion may be obtained by written request to the Debtor's counsel Marshack Shulman Hodges & Bastian LLP to the attention of James C. Bastian, Jr. at the address indicated above.

PLEASE TAKE FURTHER NOTICE, that pursuant to Court order, objections to the Sale Motion, if any, shall be in the format as required under Local Bankruptcy Rule 9013-1(a)(7) and filed with the Clerk of the above Court and a copy served upon the following parties no later than March 18, 2002: